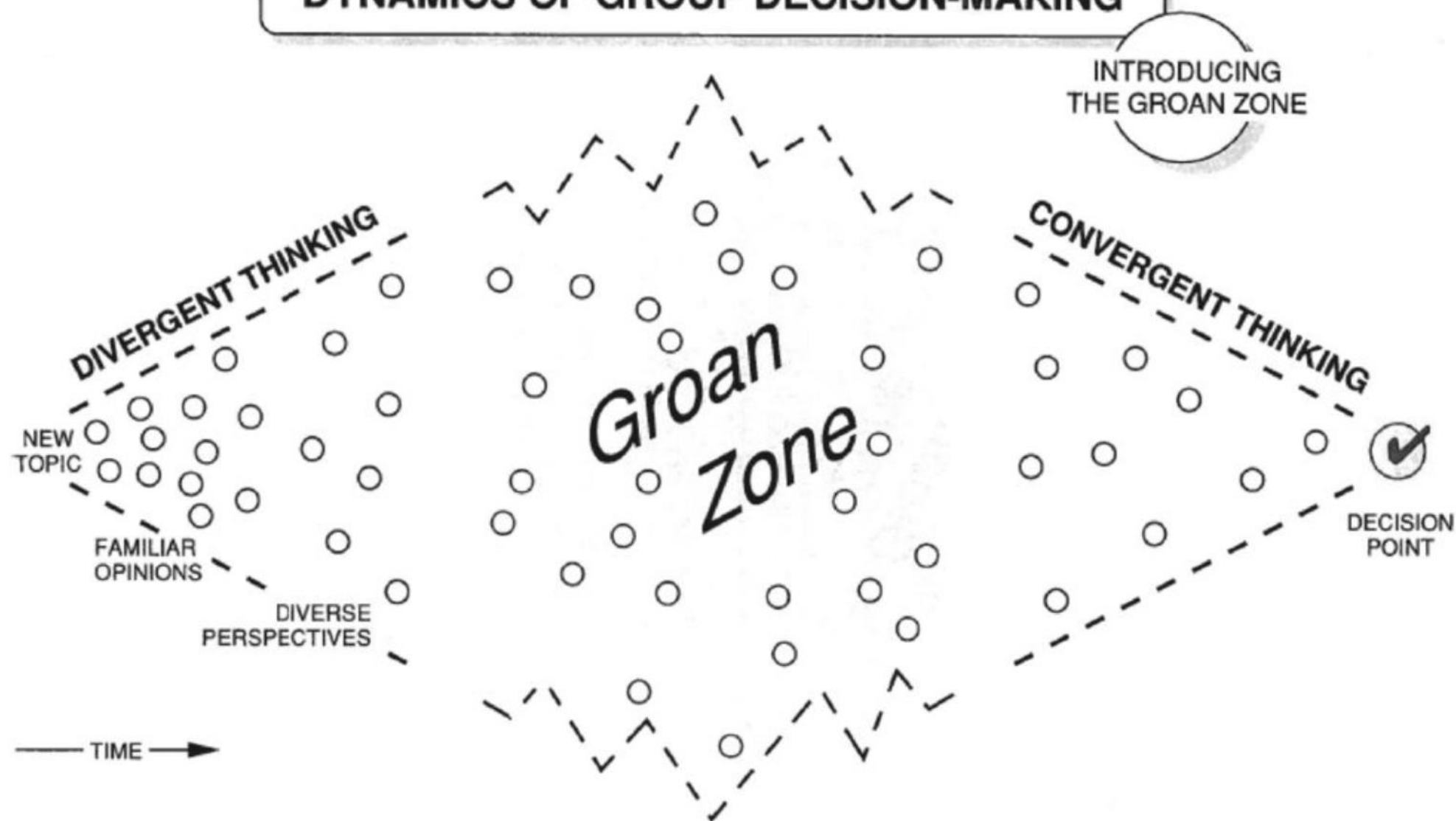


VERIFYING THE CHALLENGE

Tax Restructuring and Equalization Task Force
August 19, 2019



DYNAMICS OF GROUP DECISION-MAKING



THEN AND NOW...

“In recent years, the legs of the stool have grown at different rates. The differences in the rates of growth have been determined to some degree by legislative changes but for the most part by the evolving Utah economy.

Thus, income tax revenues are now predominant, with sales taxes second.”

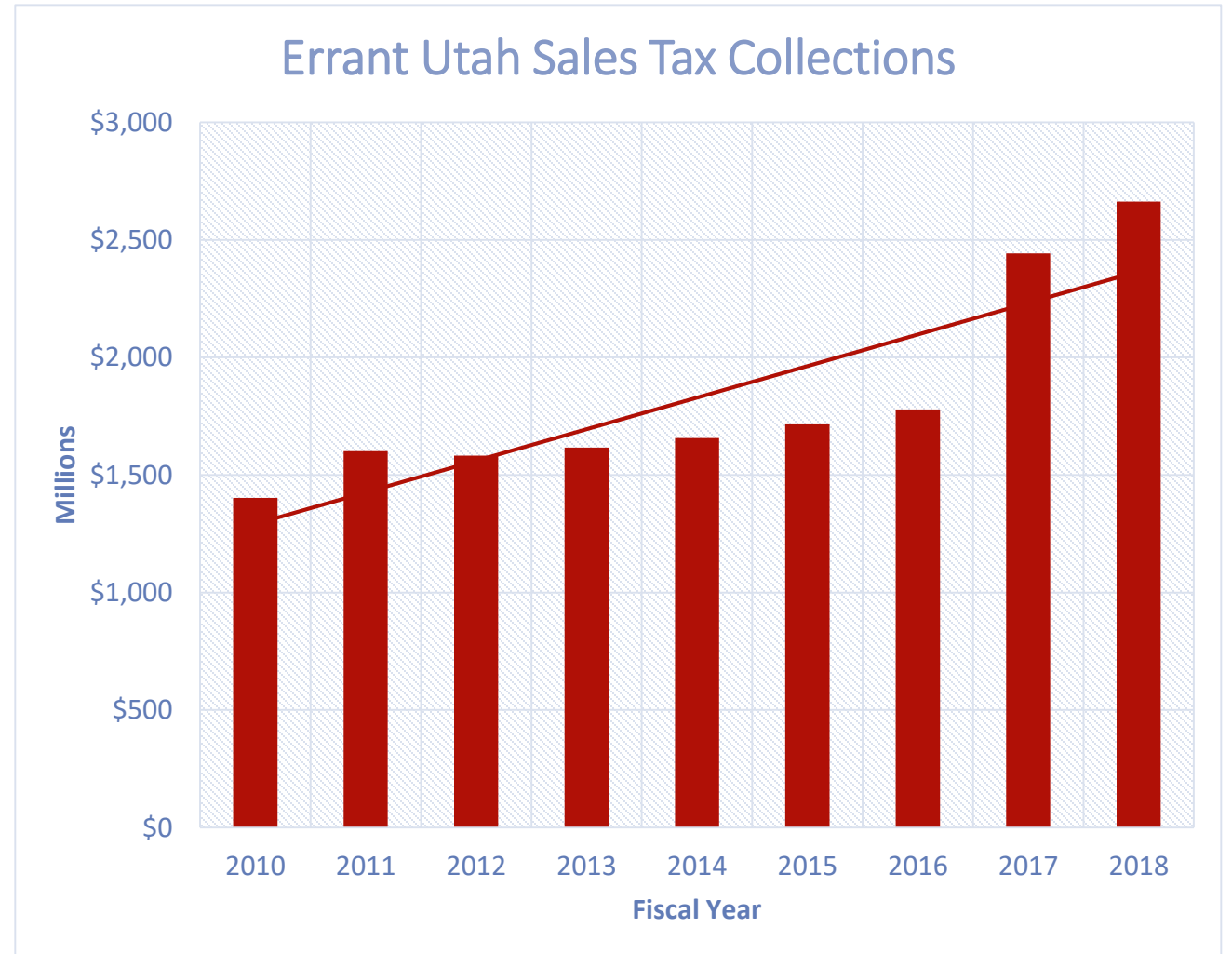
Governor Olene S. Walker's Recommendations on a Tax Structure for Utah's Future,
November, 2004

SALES TAX REVENUE IS GROWING...

...but not as fast as the economy or income tax.

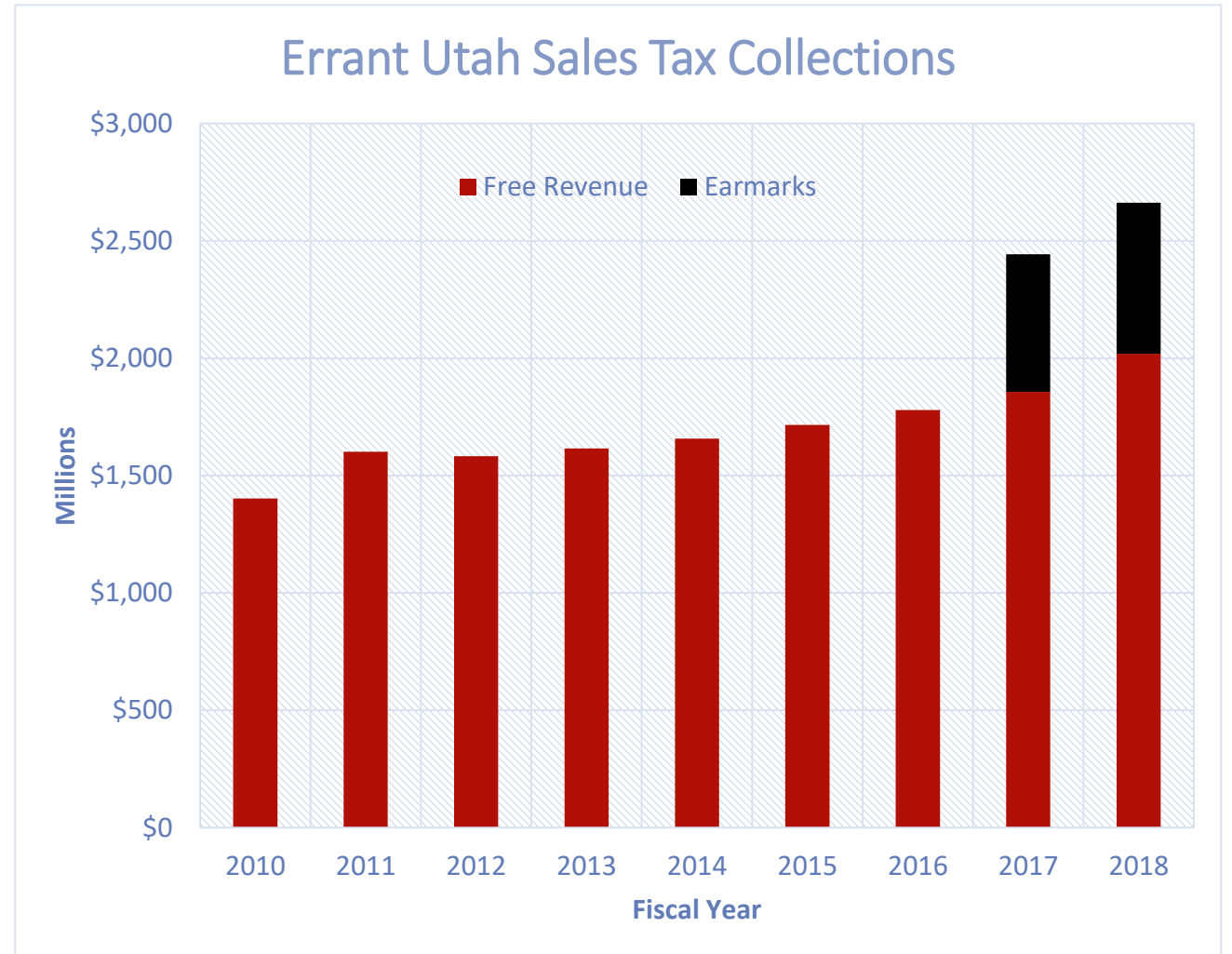
IS UTAH SALES TAX GROWING?

- We heard from an outside group that Utah Sales Tax has grown 68% since 2010.



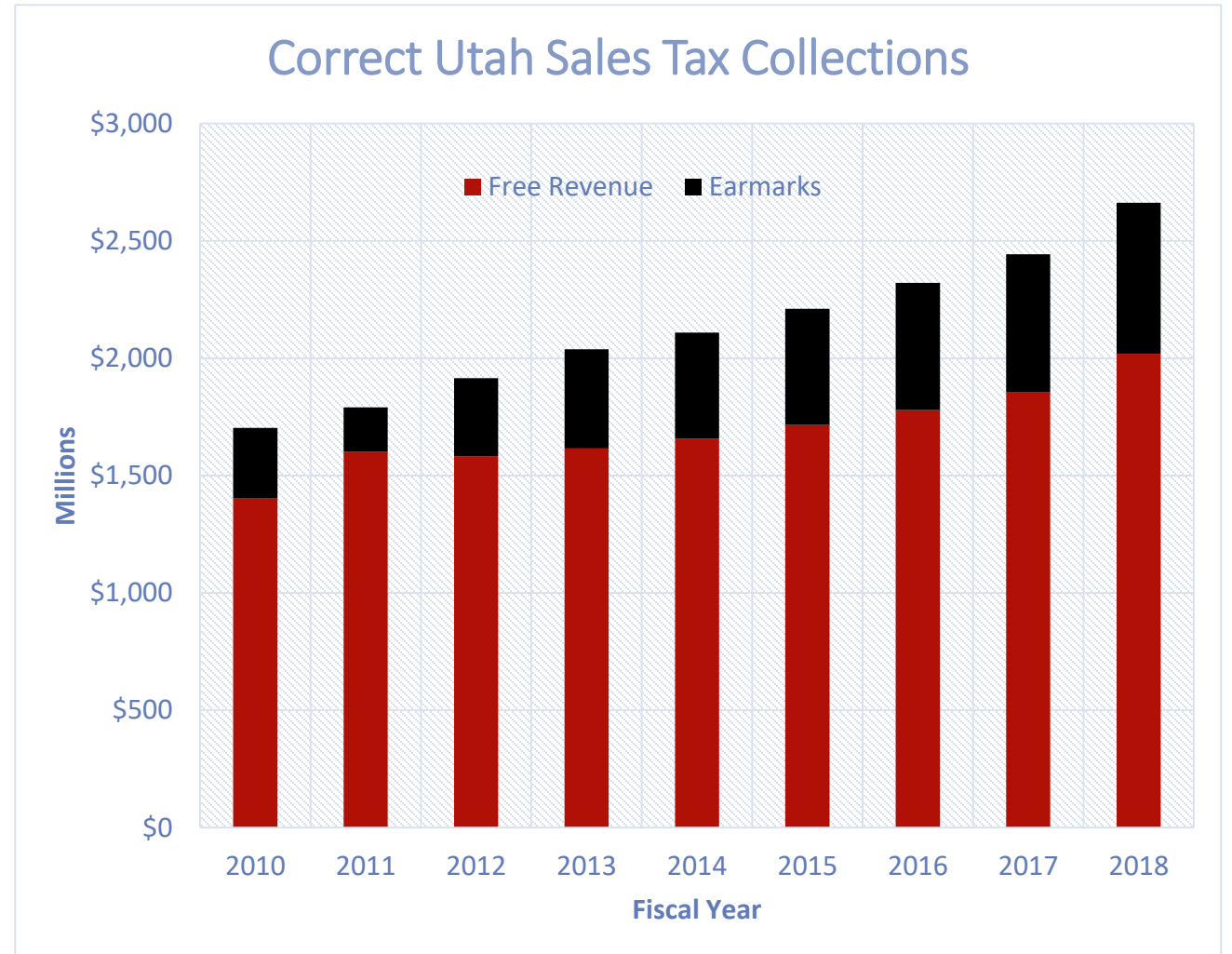
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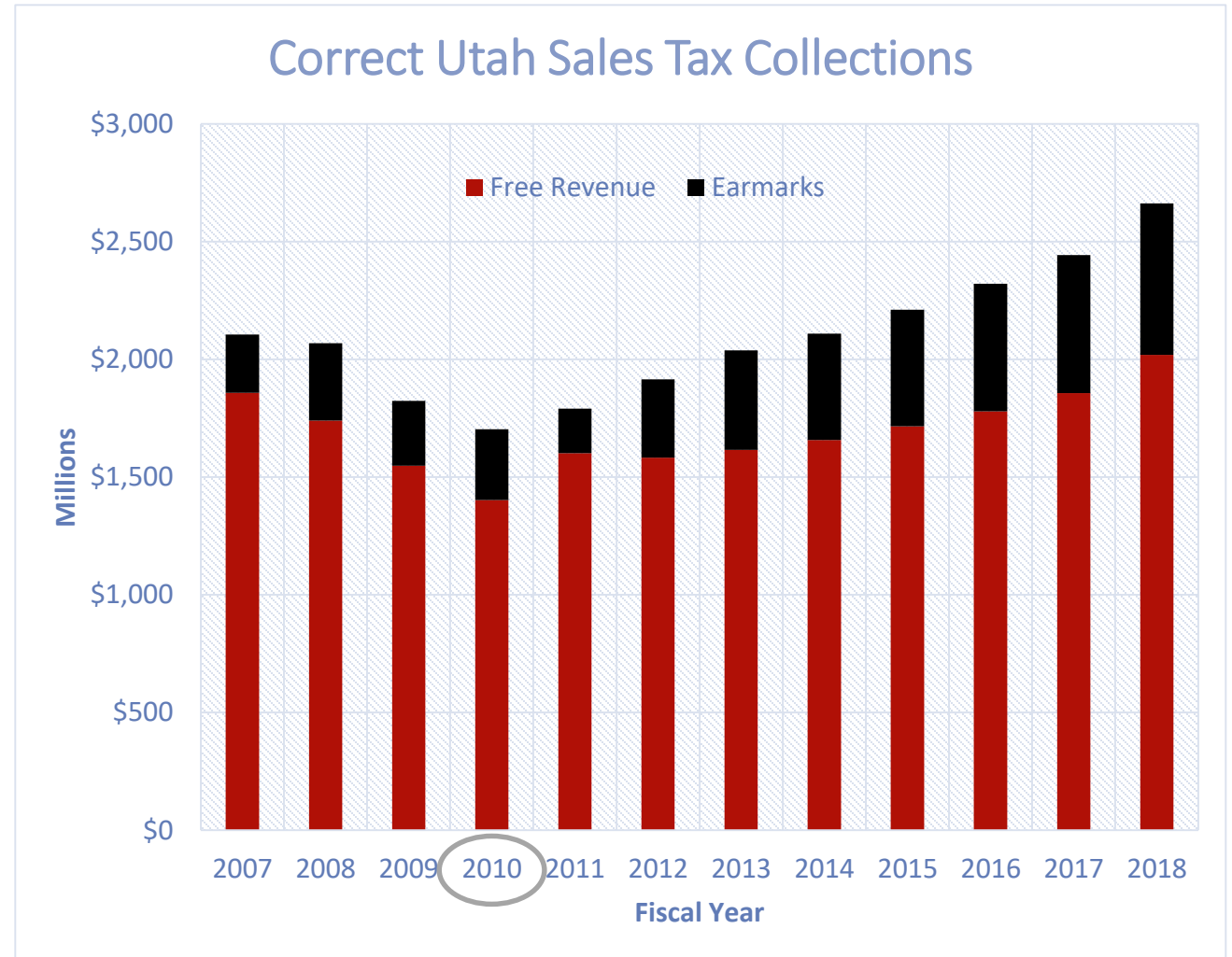
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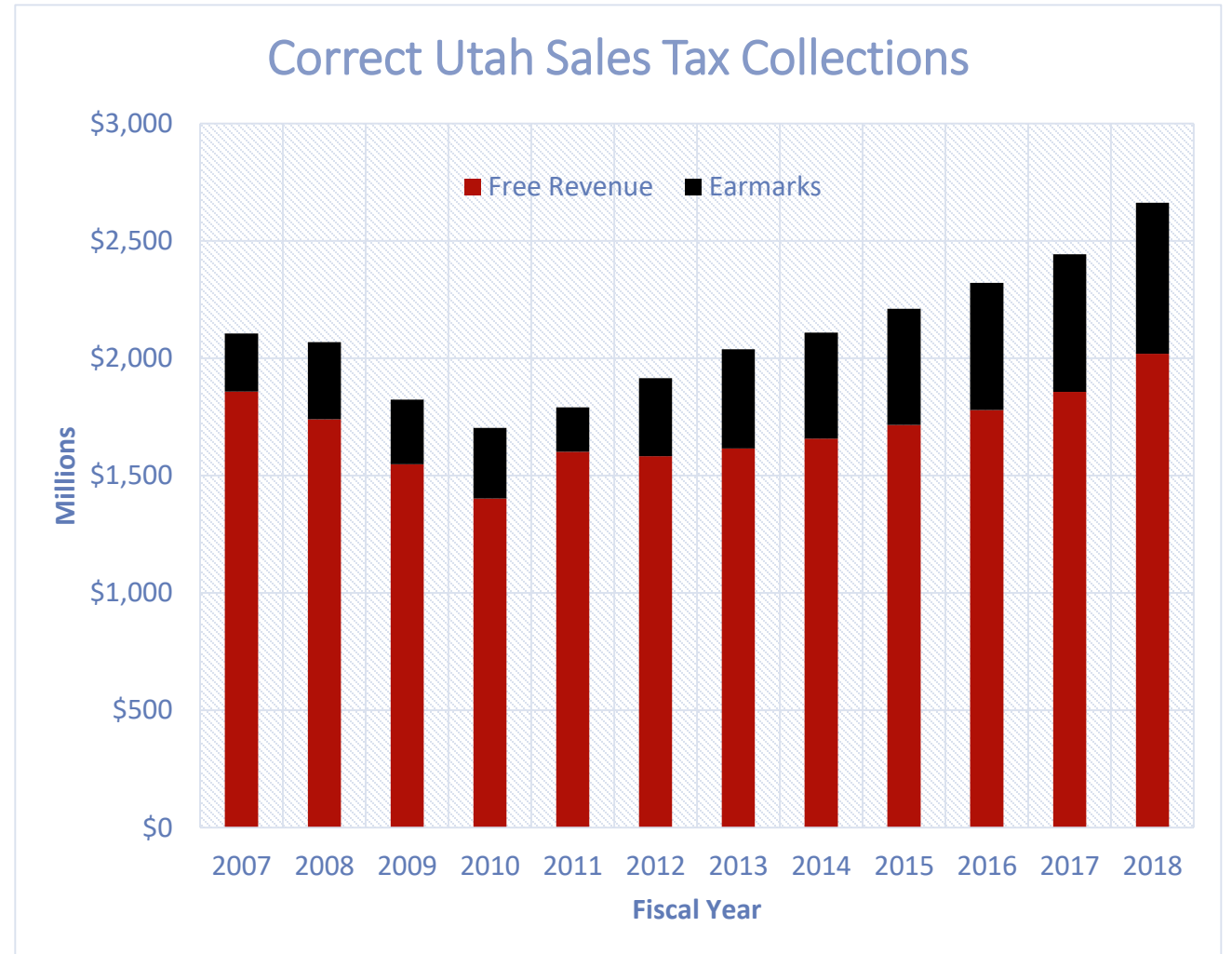
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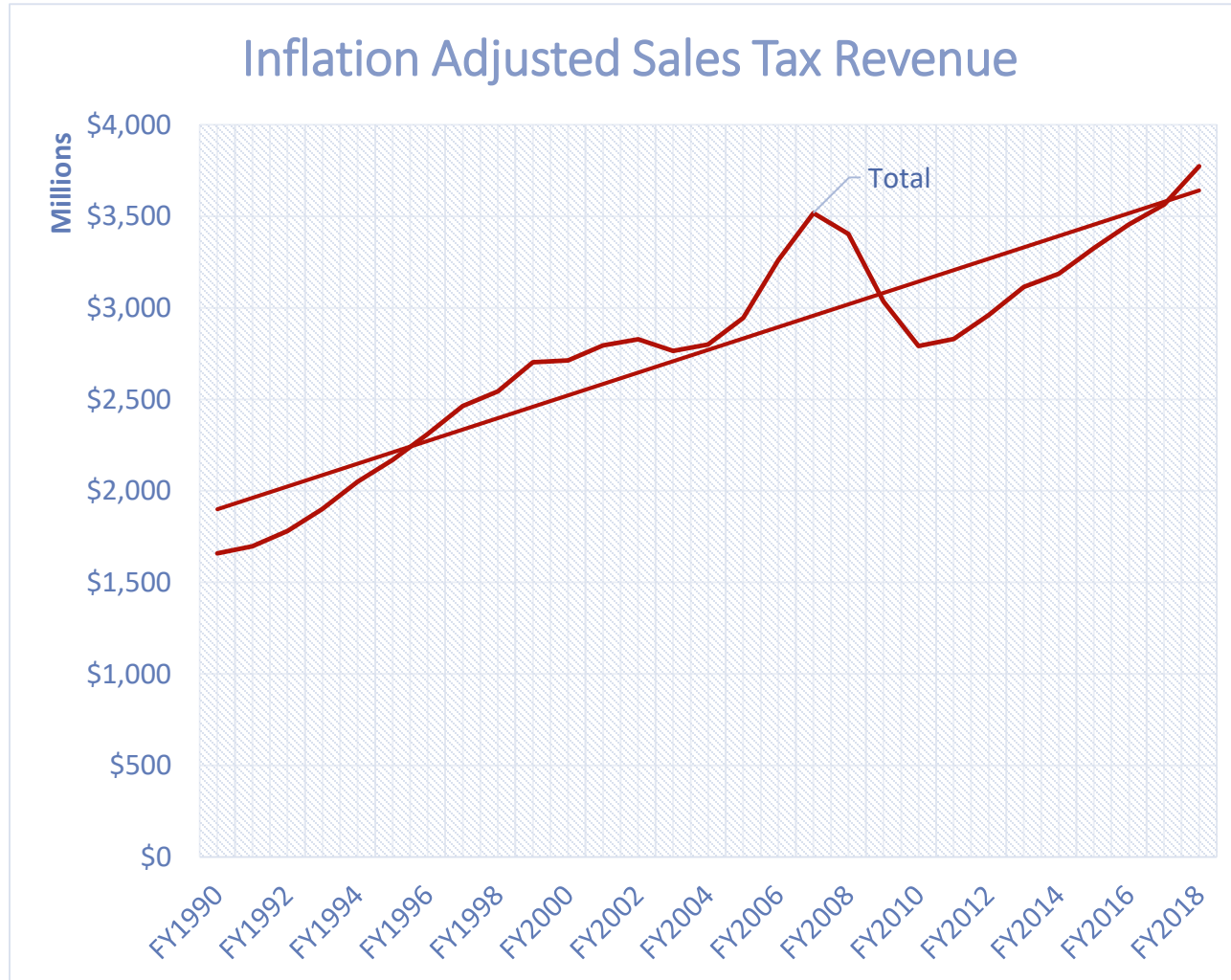
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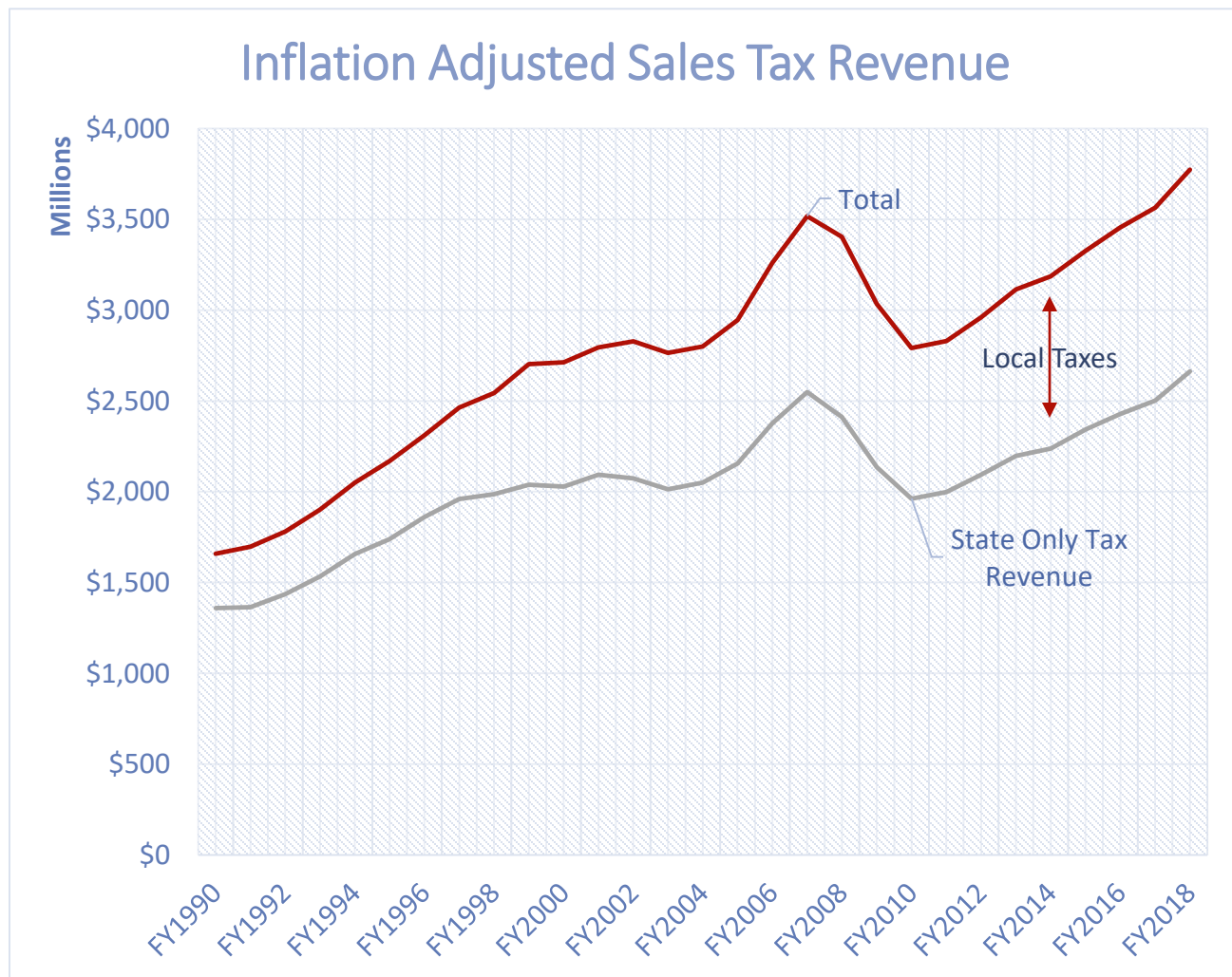


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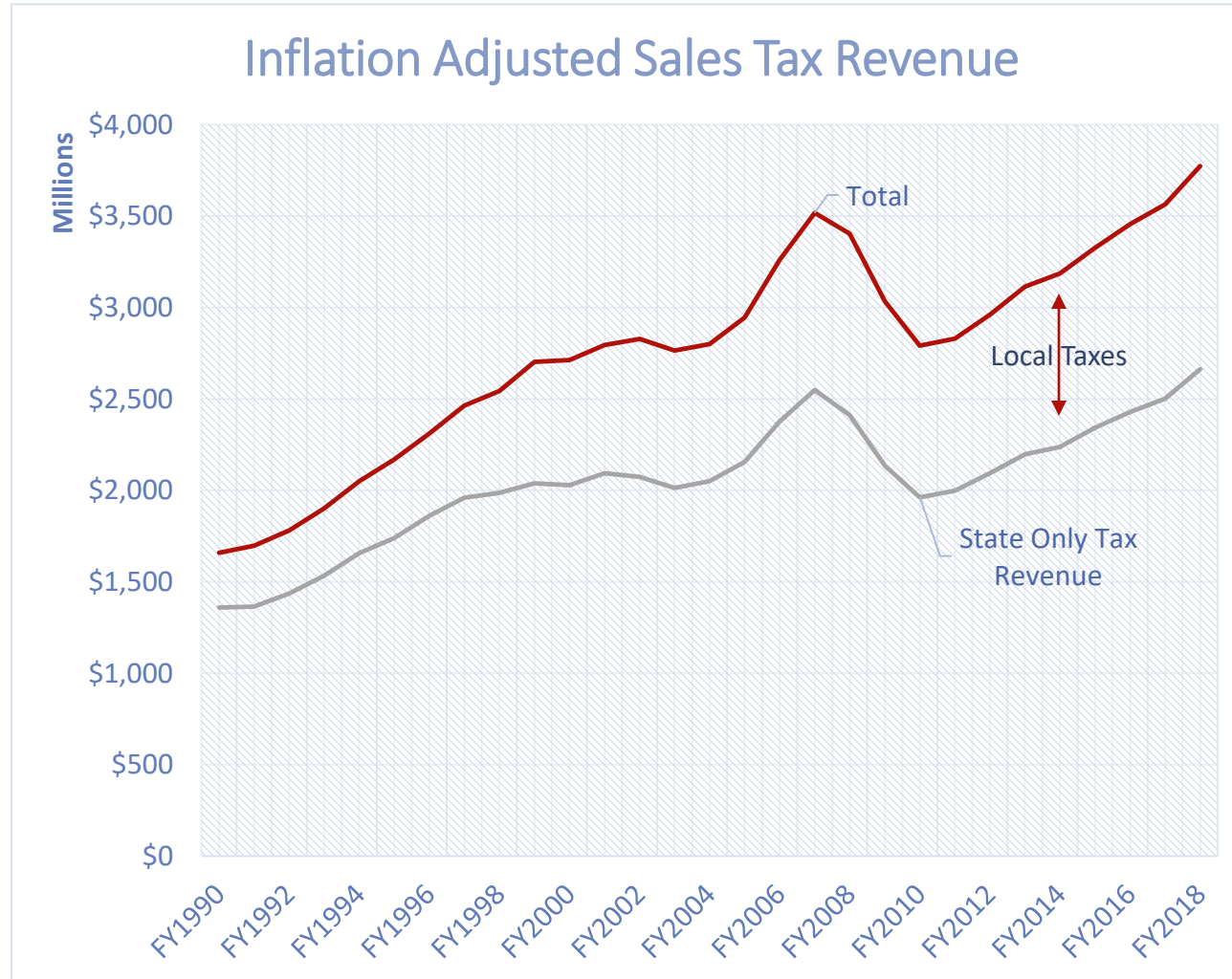


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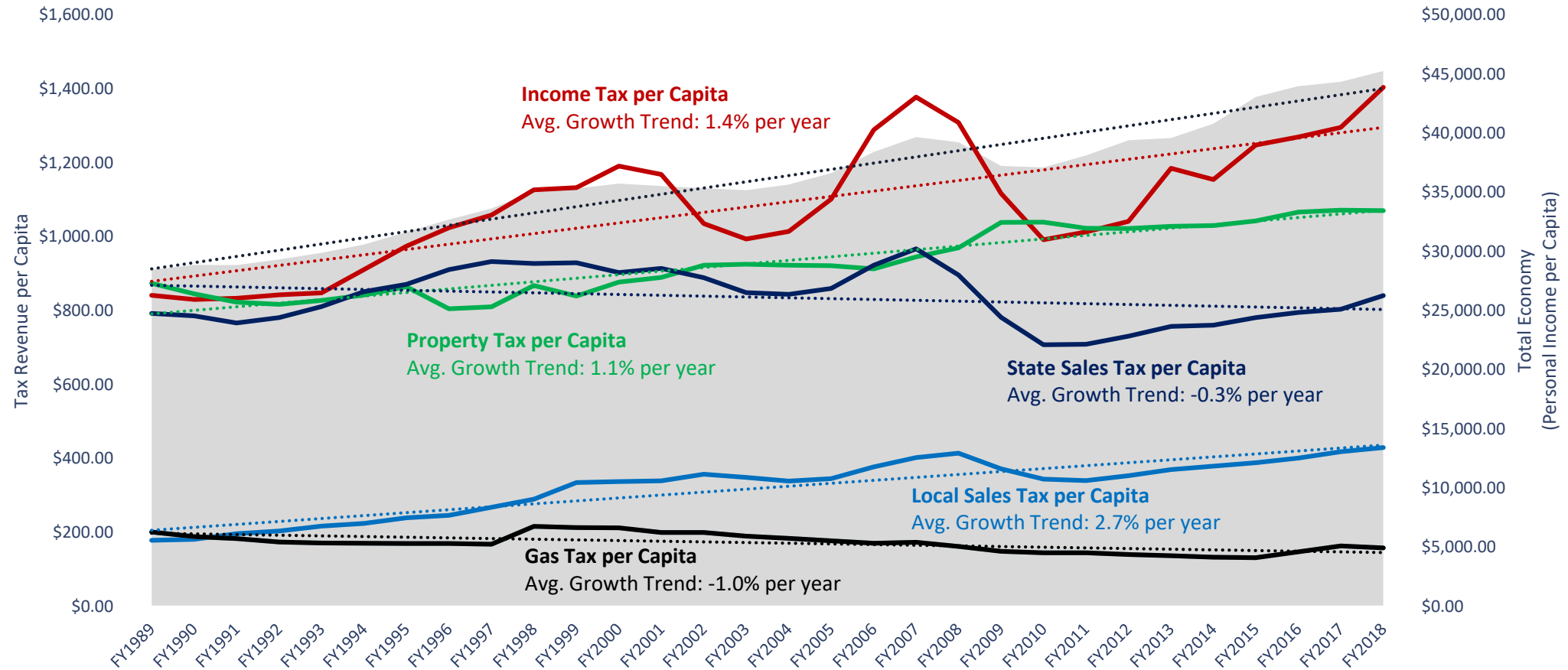


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- The underlying analysis included local sales tax revenue, capturing new local option rate increases.
- The analysis did not account for population growth.

TAKE AWAY #1

- Sales tax revenue **IS** growing in nominal terms – an opportunity to rebalance revenue and cut taxes.
- Since 1989, inflation adjusted Utah state sales tax revenue per person has been flat or has slightly decreased.
- THE ISSUE IS RELATIVE GROWTH RATES
- In real per-capita terms, across business cycles, state sales tax revenue **IS NOT** growing as fast as:
 - Income tax
 - Property tax
 - The economy
 - Consumption

UTAH SALES, INCOME, AND PROPERTY TAX PER CAPITA (INFLATION ADJUSTED)



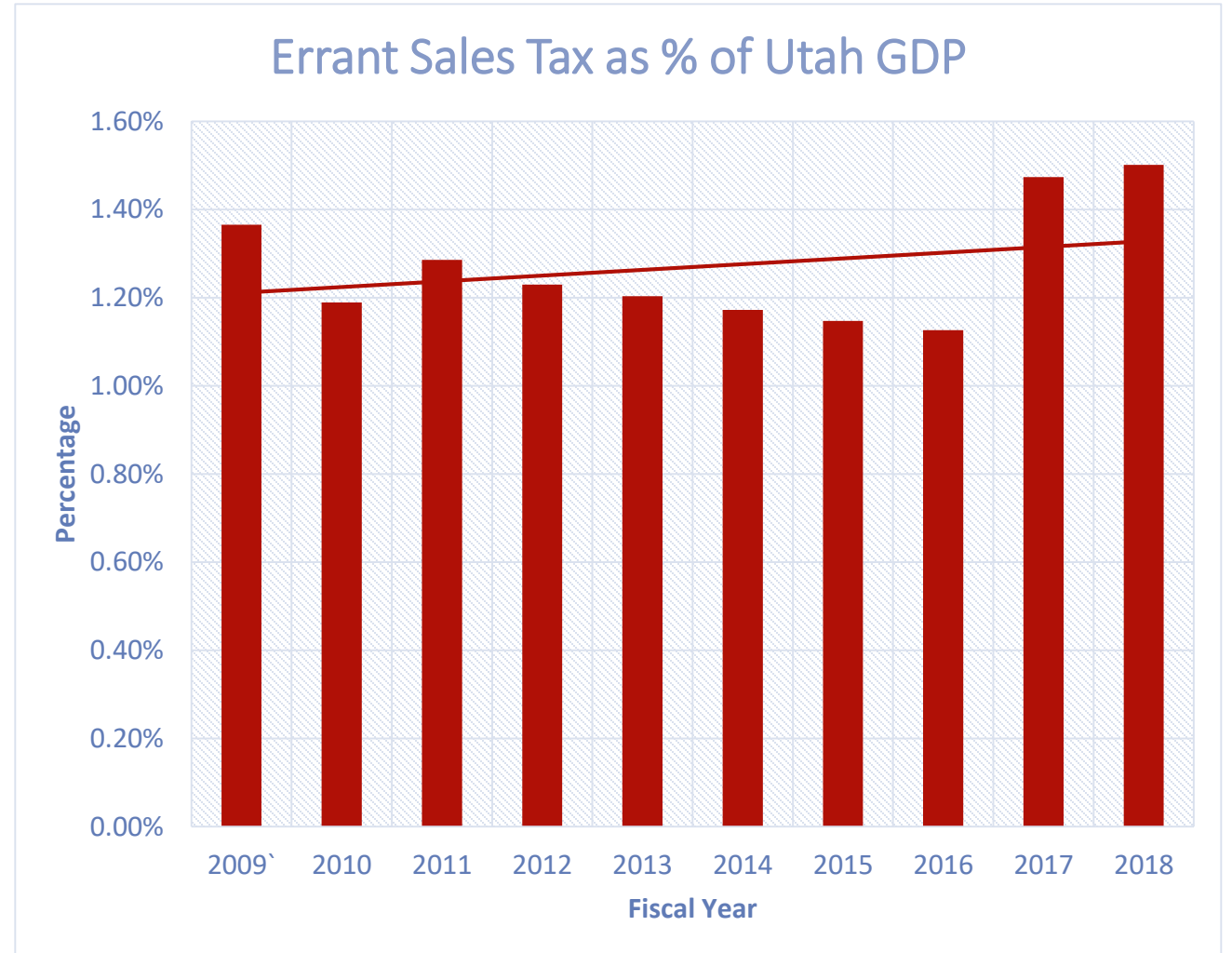
Sources: Utah State Tax Commission
U.S. Bureau of Economic Analysis

THE SALES TAX BASE IS NARROWING...

...but not at a constant rate.

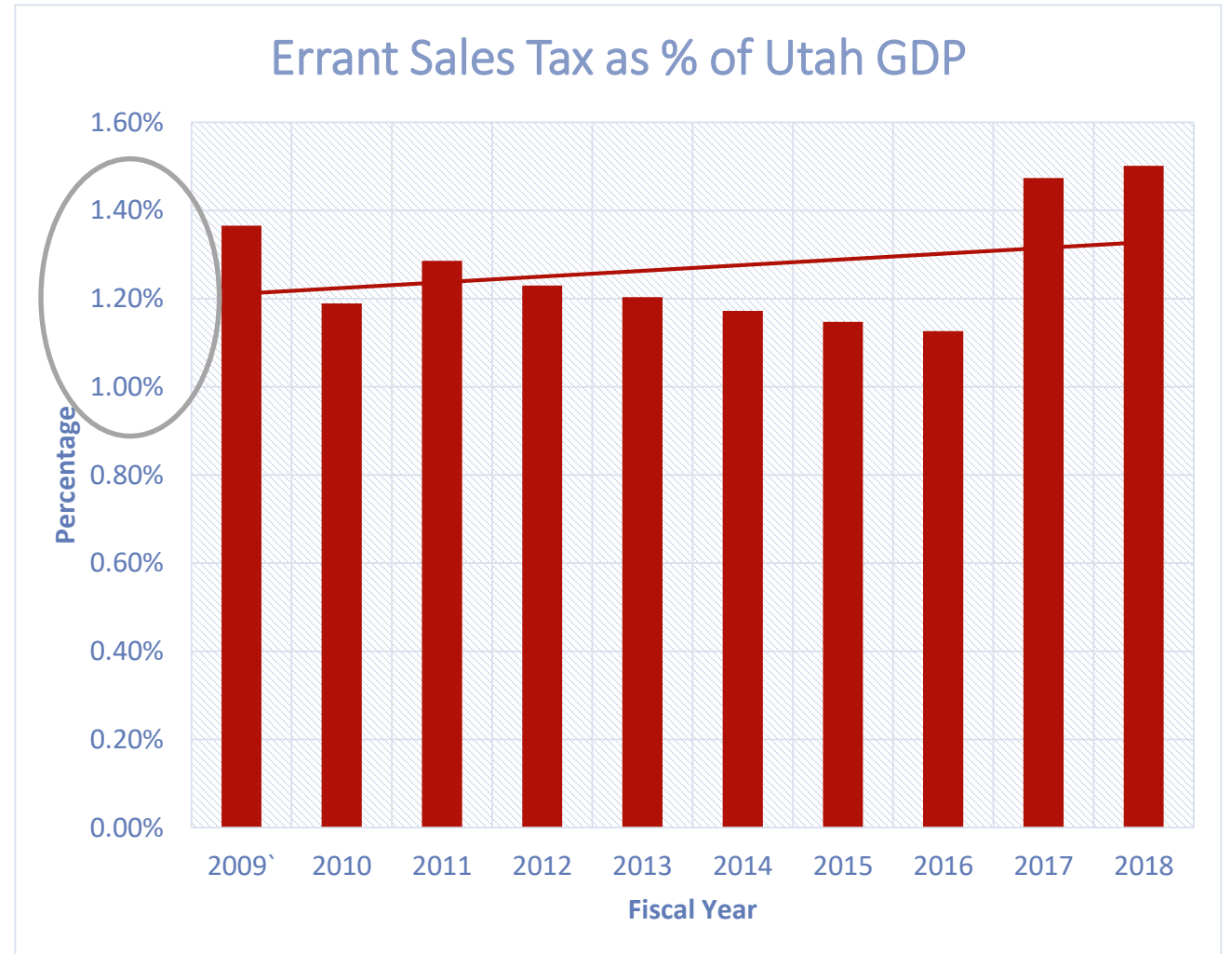
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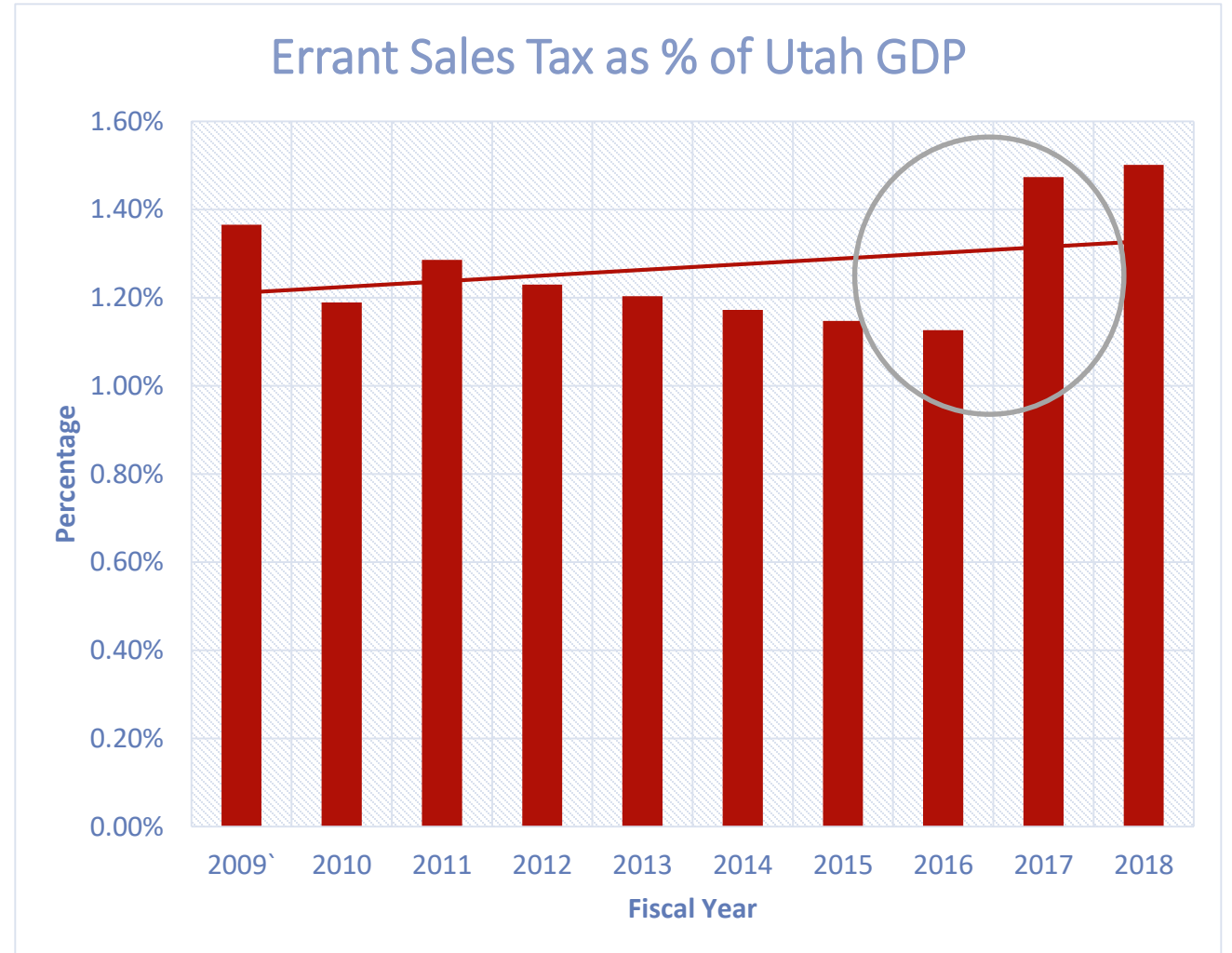
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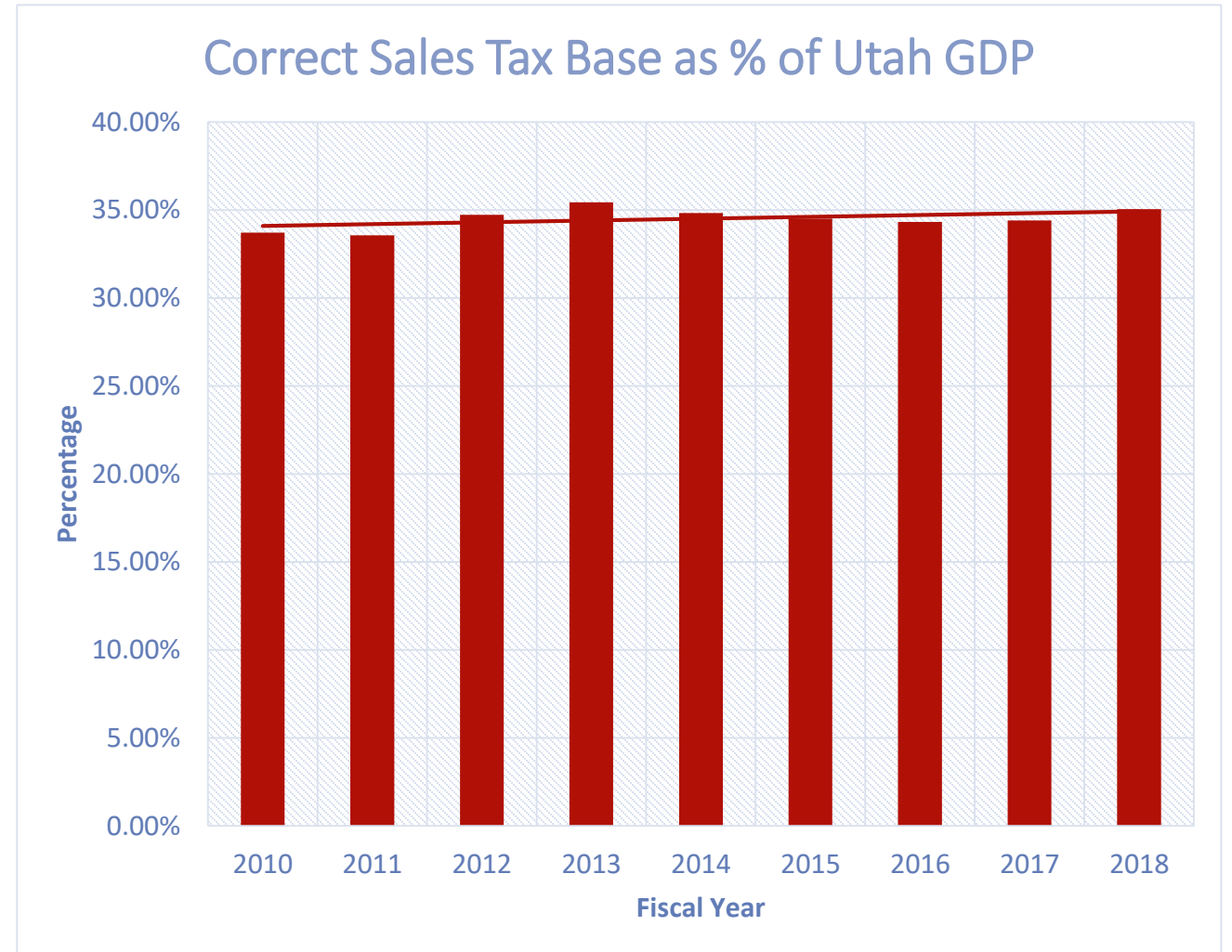
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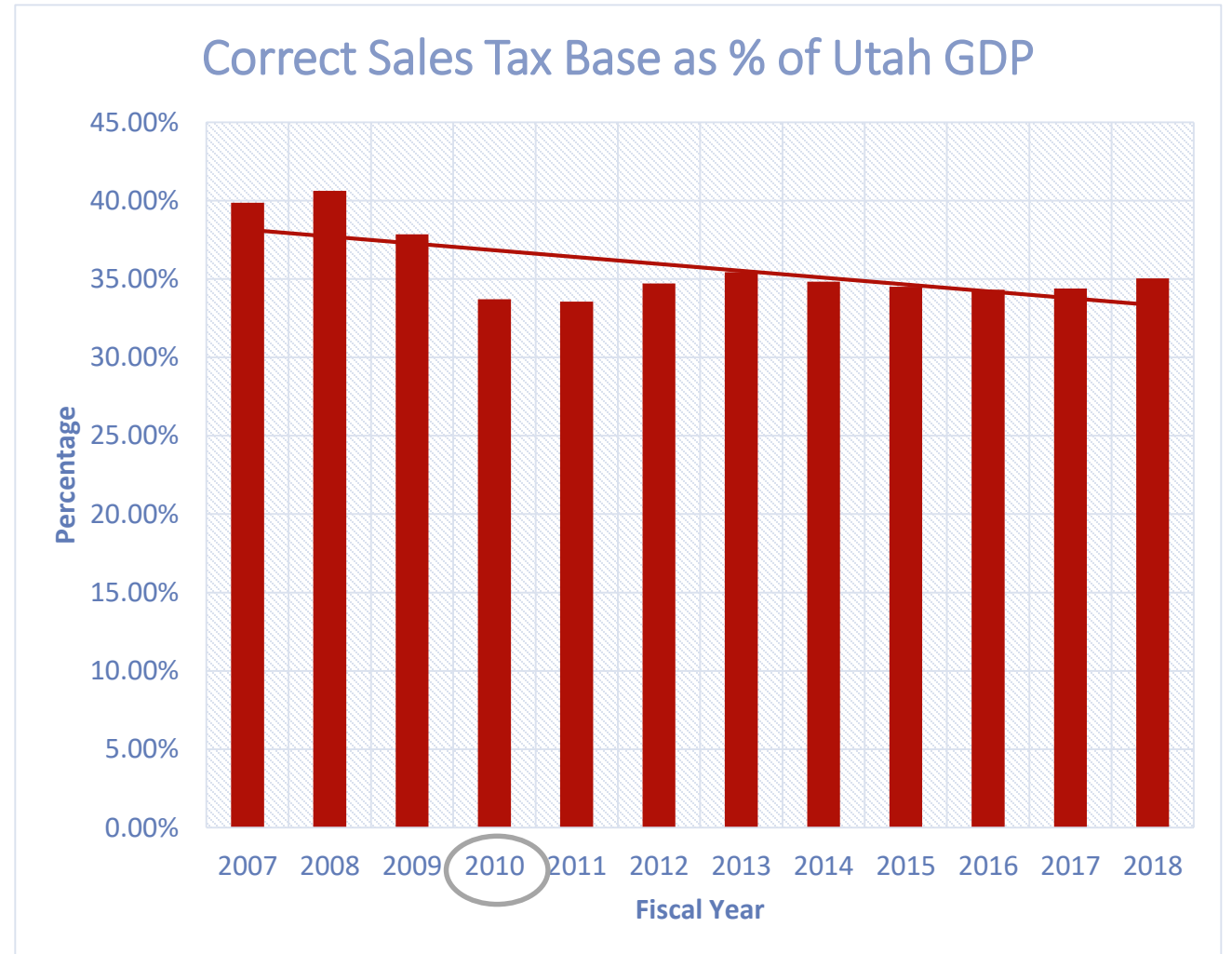
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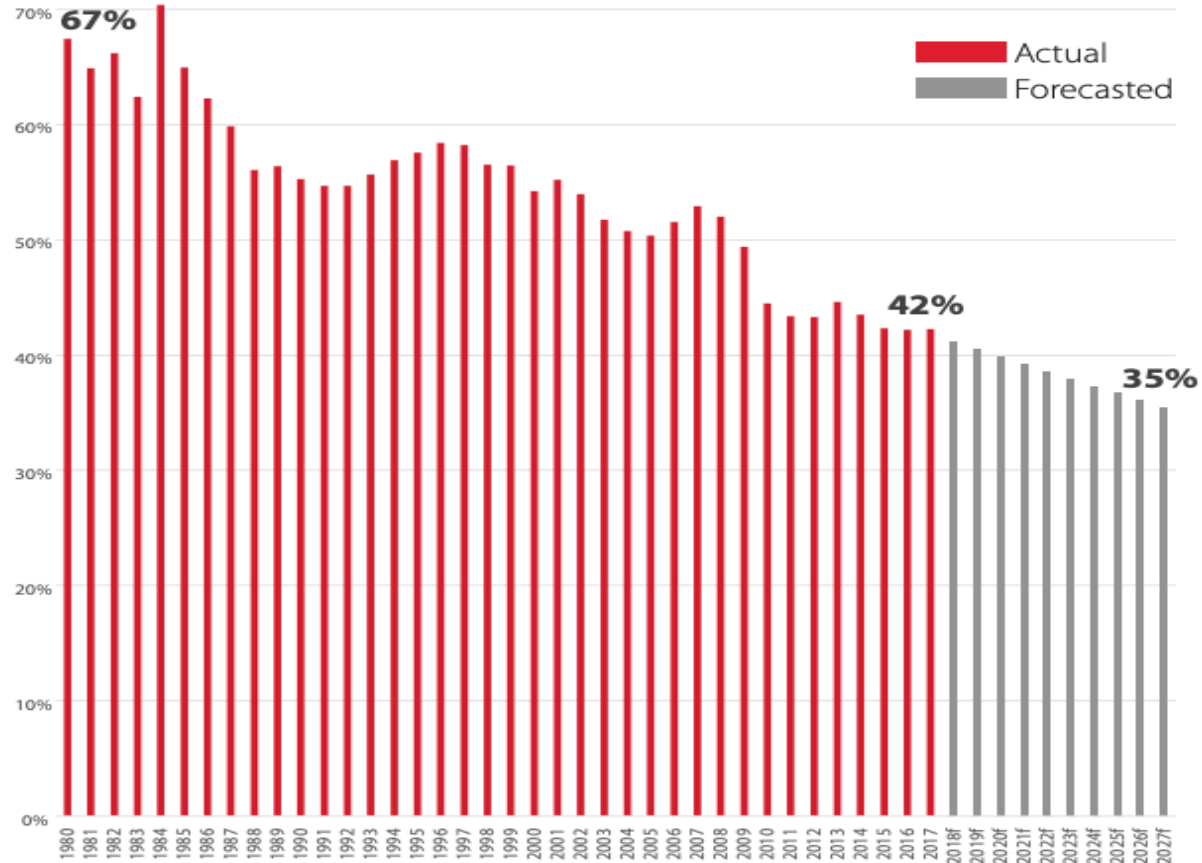


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Sales Tax Base as a Percent of Personal Income

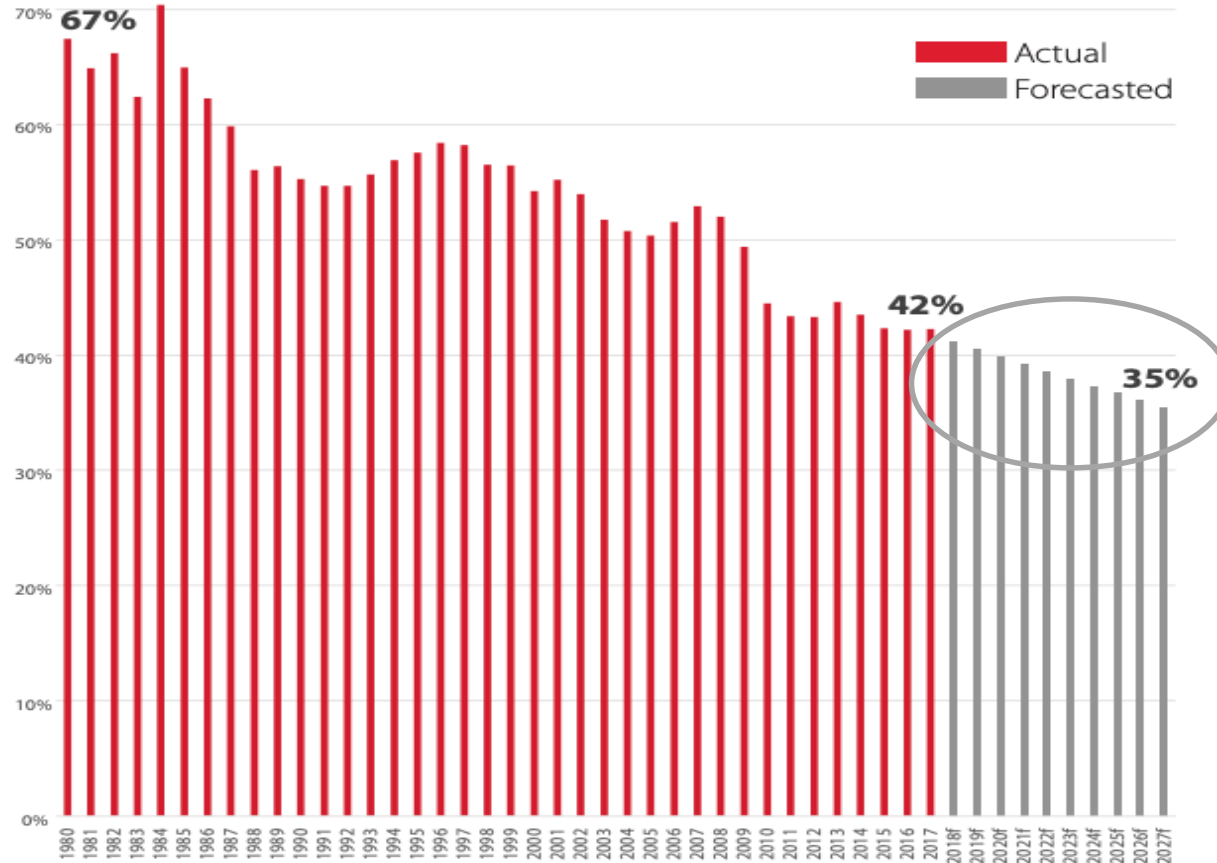


Source: Governor's Office of Management and Budget and Kem C. Gardner Policy Institute

WILL TAXABLE SALES TANK?

- We heard from an outside group that the Utah sales tax base will precipitously decline over the next decade.

Sales Tax Base as a Percent of Personal Income

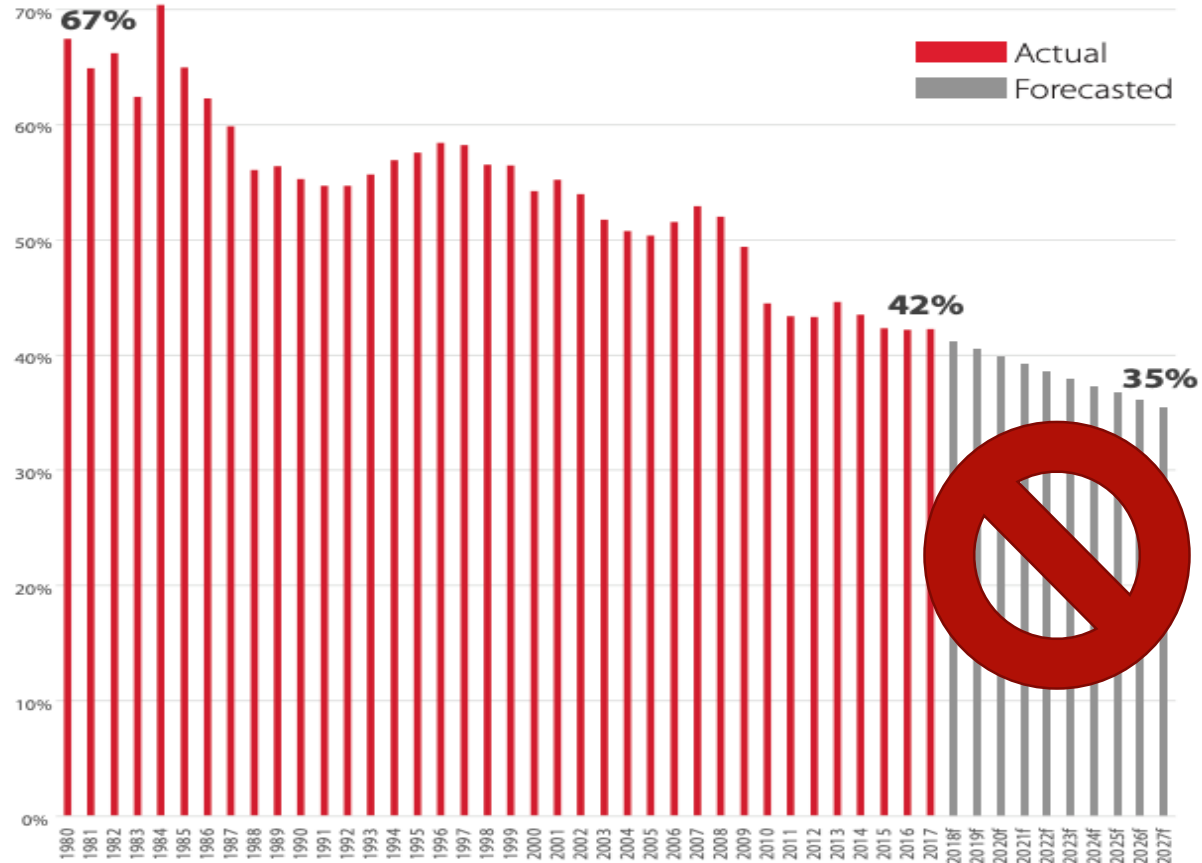


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- The analysis uses a straight-line forecast on a complex dataset.
- Most certainly the business cycle will eventually cause this ratio to rebound.

Sales Tax Base as a Percent of Personal Income



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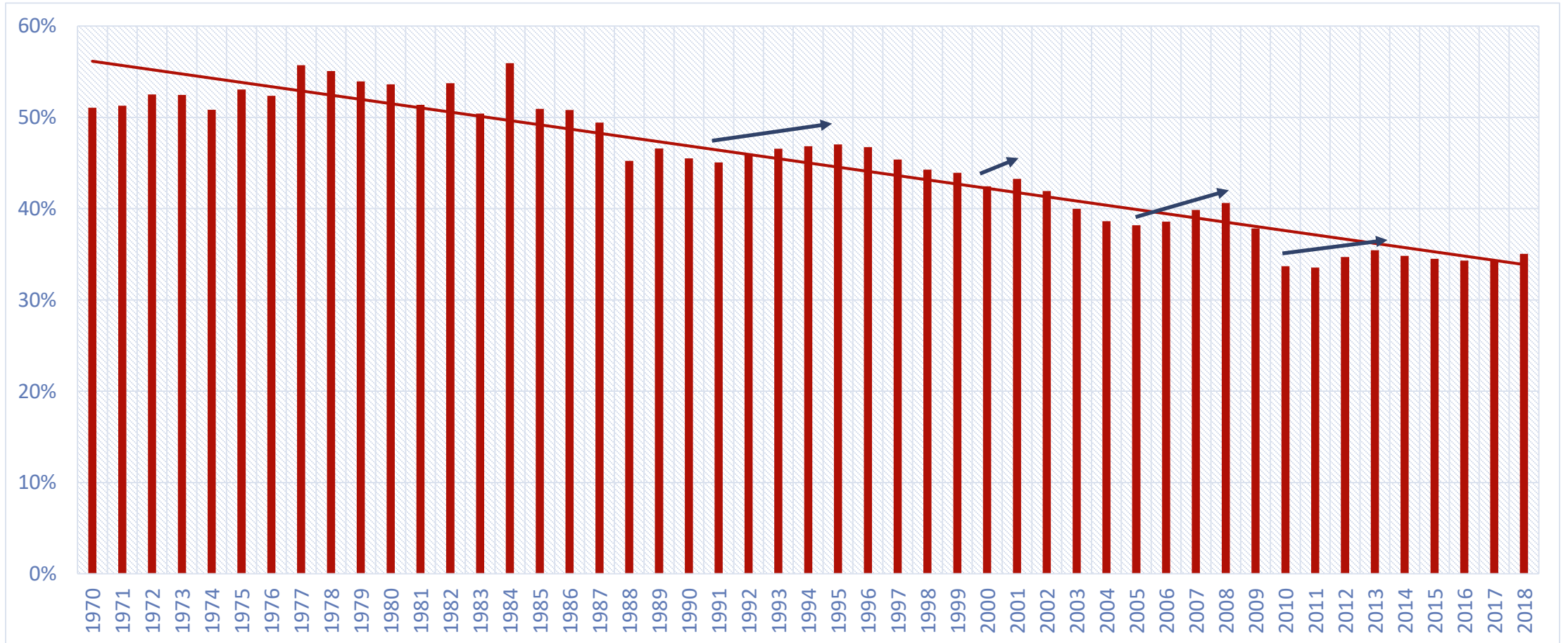
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- The analysis uses a straight-line forecast on a complex dataset.
- Most certainly the business cycle will eventually cause this ratio to rebound.
- We've already addressed some of the erosion via remote sales.
- This is not a consensus forecast.

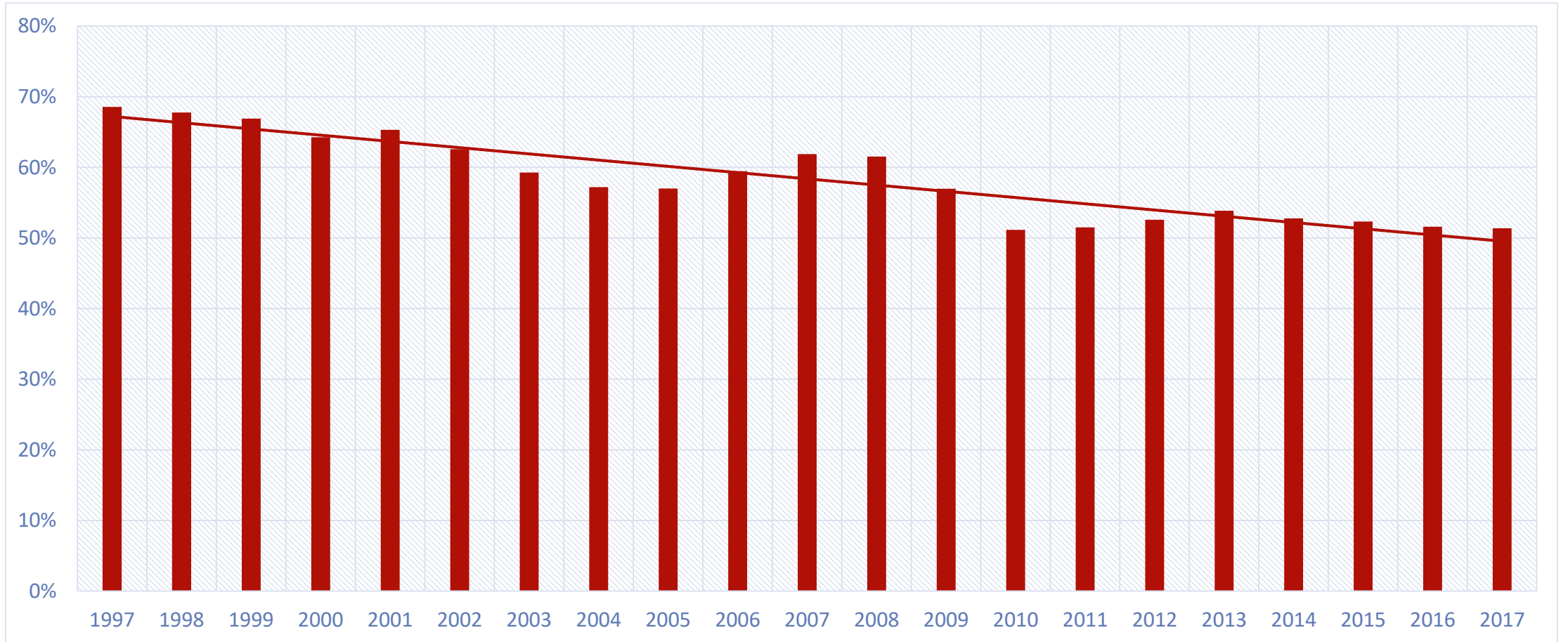
TAKE AWAY #2

- It's All About the Base! (apologies to Megan Trainor)
- Sales tax base as a proportion of the economy ebbs and flows with the business cycles.
- For each cycle, upward movement is more than offset by downward movement, creating the long-term trend.
- Taxable sales as a proportion of the economy (GDP or Income) are declining over the long-run.
- Taxable sales as a proportion of consumption are also declining over the long-run.

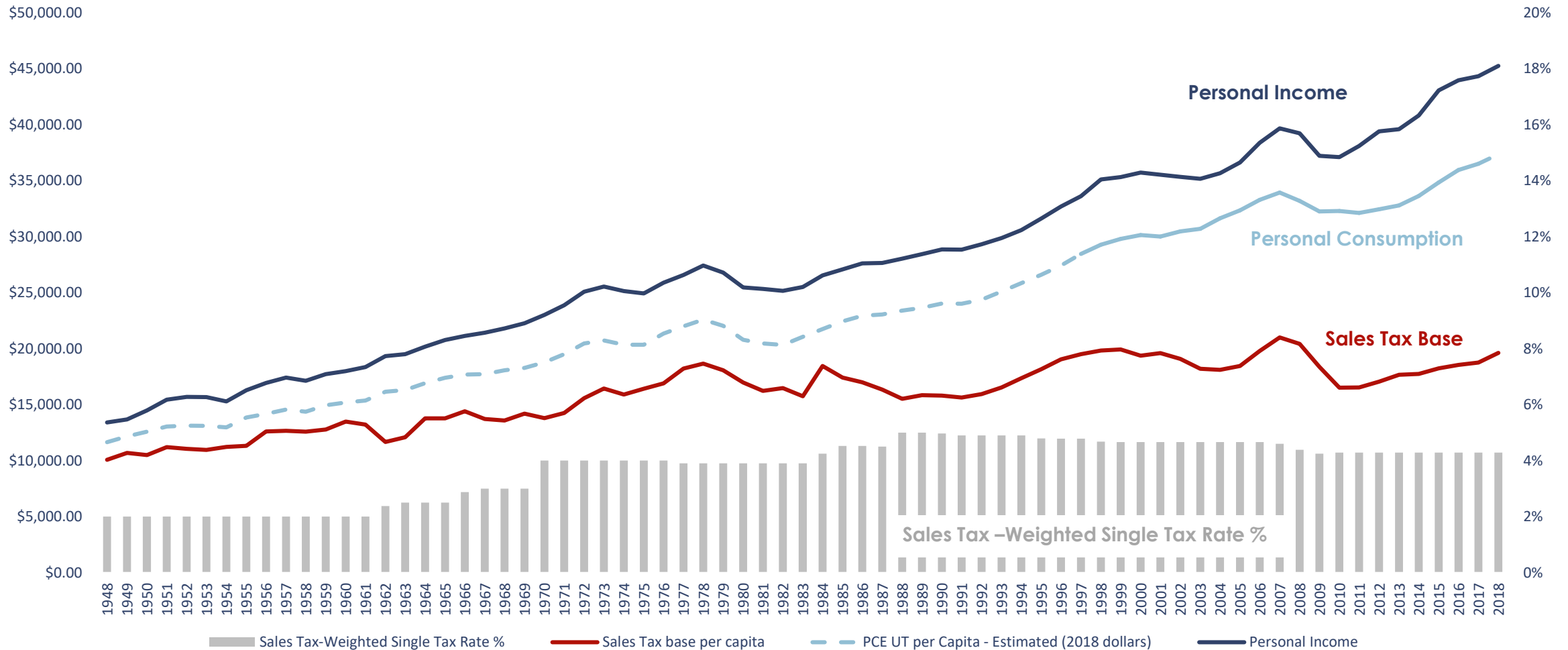
SALES TAX BASE VS. GDP



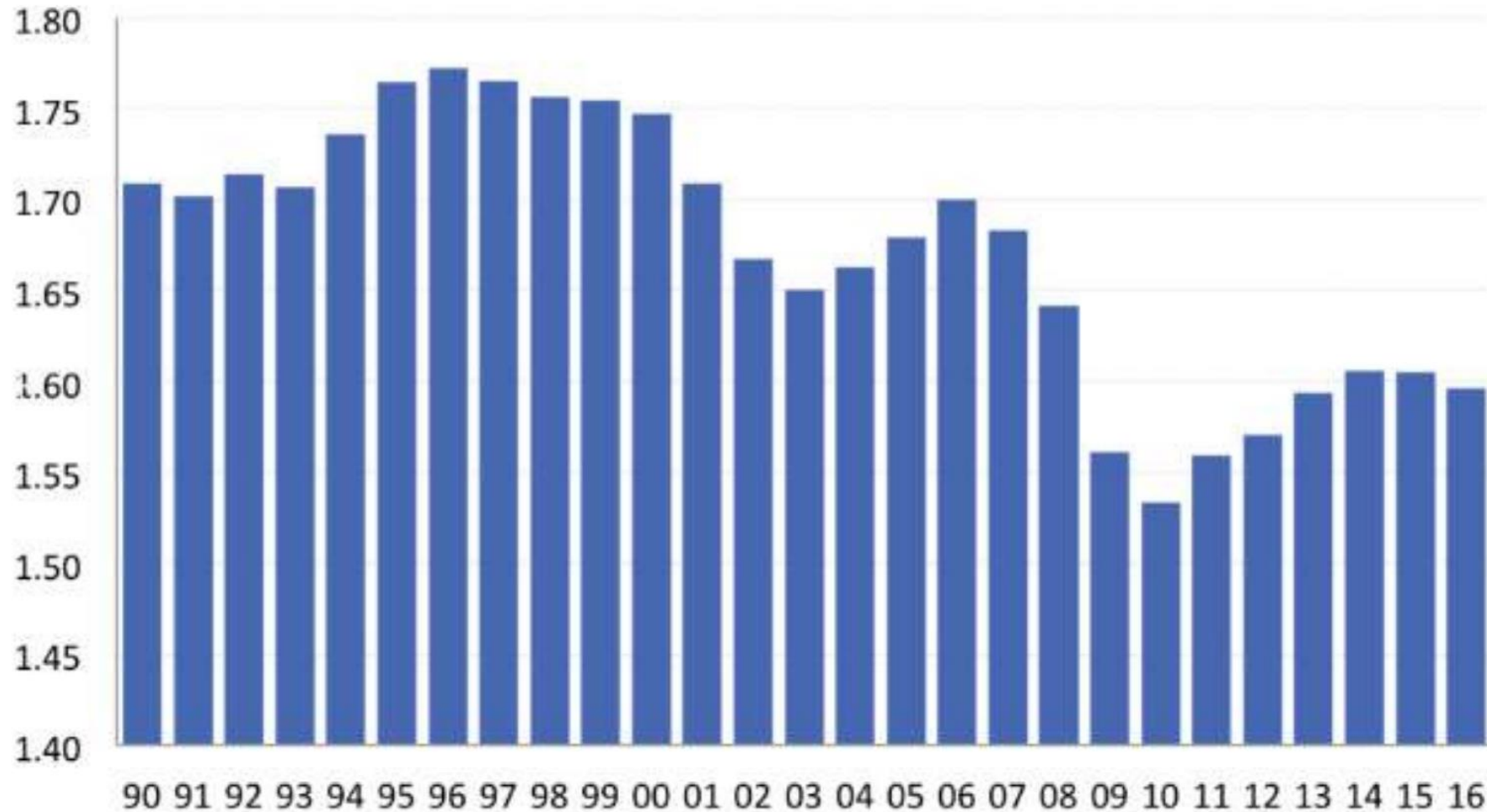
SALES TAX BASE VS. CONSUMPTION



REAL SALES TAX BASE PER CAPITA



STATE SALES TAX COLLECTIONS AS A PERCENTAGE OF GDP

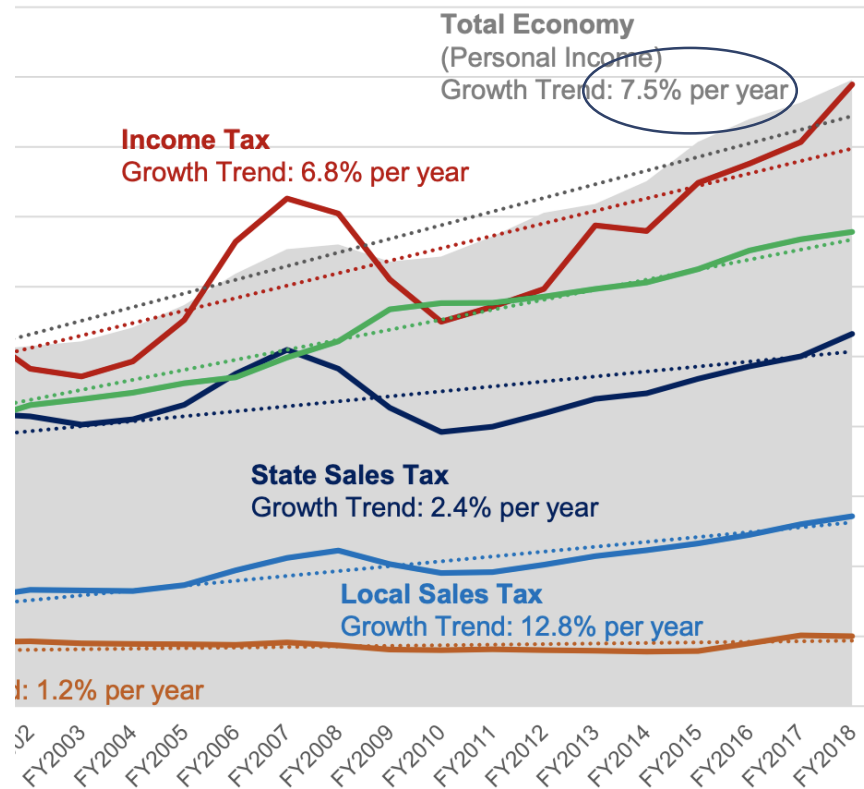


LESSONS LEARNED FROM TOWN HALLS

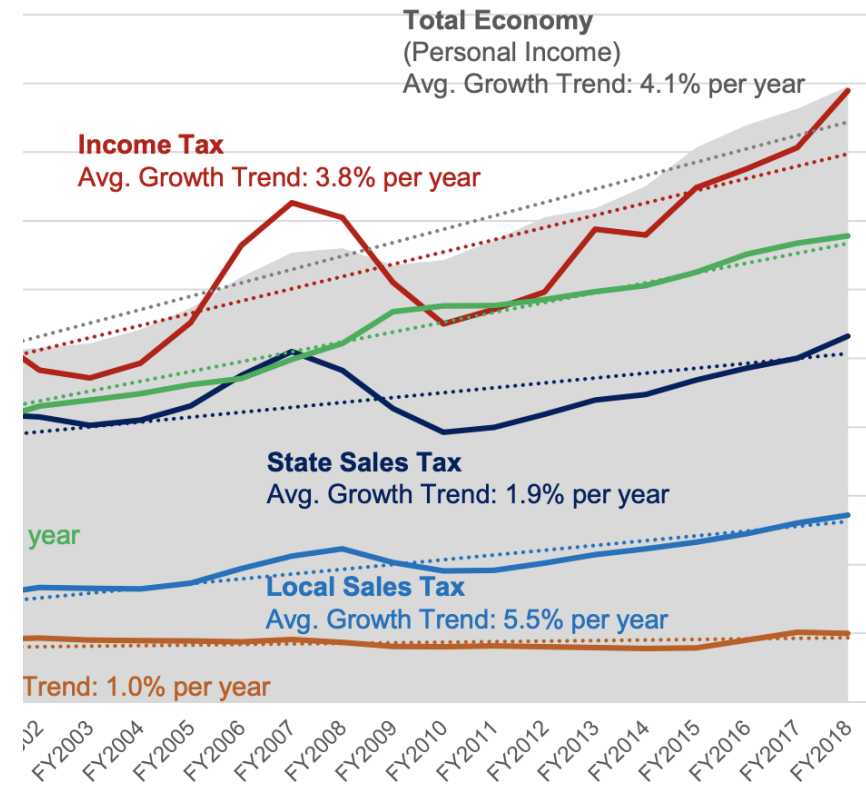
Policymakers educated...and got educated.

WE OURSELVES ARE NOT IMMUNE

Davis County



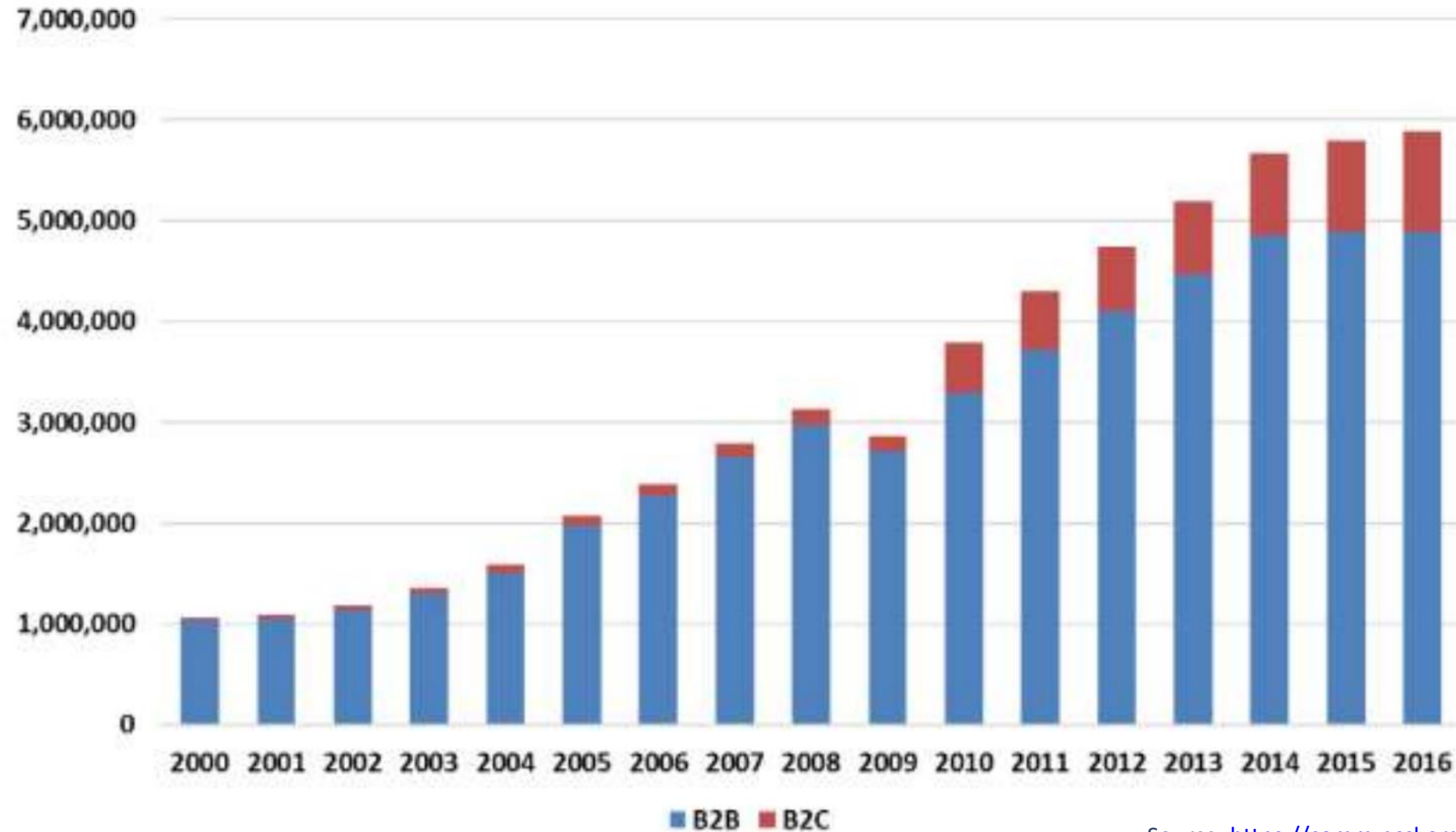
Utah County



REMOTE SALES WILL HELP

- Amazon Voluntary Agreement = \$40 m/yr
- Wayfair v. South Dakota = \$59 m/yr
- Marketplace Sellers = \$6 m/yr
- Total = ~\$105 m
- Most of Wayfair \$ used to offer Exemption for Manufacturing equipment with less than 3 years life.
- Other revenue build into ongoing budgets.
- However, potential exists for strong future growth

E-COMMERCE SALES IN U.S.



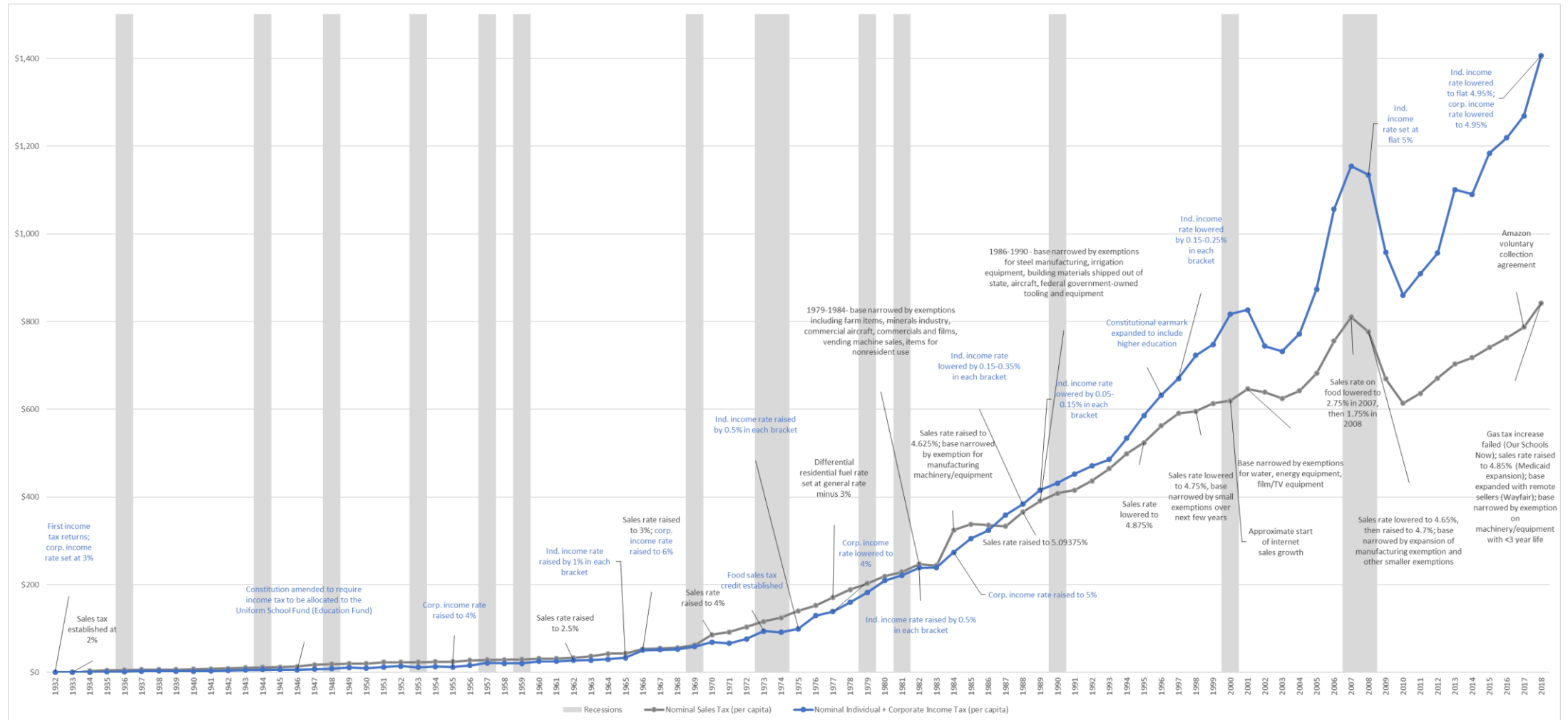
Source: https://comm.ncsl.org/productfiles/126168546/Bill_Fox.pdf

IMPACT OF E-COMMERCE ON SALES TAX BASE

- “Avoidance behavior will continue”
- “The bottom line, revenues will be smaller than some expect”
 - William F. Fox, Director, Boyd Center for Business and Economic Research, University of Tennessee



MANY FORKS IN THE ROAD



TAKE AWAY #3

- We have a valid challenge – a budget problem – and budgets include both income and spending.
- Expanding the sales tax base may be part of the solution.
- Many past policy decisions – along with the economy – led us here.
- Policymakers may have assumed that past policy decisions were settled.
- Options are back on the table that before were off.
- We don't do “crisis” in Utah.

OTHER VOICES

"During the past 45 years, Utah has seen the nation's second biggest decline in taxable sales as a proportion of consumer expenditures. Beginning in 1975, Utah's sales tax imposed a larger tax burden than income or property taxes. During the past two decades it has trended downward to impose the smallest burden of the three. Utah had essentially the same real per capita sales tax revenue in 1978 as in 2016 – meaning that, as costs climb, the state is losing purchasing power from this revenue source...Sales taxes on services are supported by economists and policy analysts across the ideological spectrum. However, expanding sales taxes to capture services can face intense pushback from industries to be affected and from citizens who fear the change will result in net tax increases."

The Everyday Tax, Utah Foundation, June 2018, p. 1

OTHER VOICES...

“Utah’s sales tax base is not as narrow as some of its peer states’ bases, but it remains narrow – and erodes further each year.”

Jared Walczak, “Modernizing Utah’s Sales Tax: A Guide for Policymakers,
Tax Foundation, June 2019

OTHER VOICES...

“Digitization/sharing economy will continue eroding the [sales] tax base”

William F. Fox, Director,
Boyd Center for Business and Economic Research,
University of Tennessee
July, 2019

OTHER VOICES...

“As structured, the [sales] tax embodies bad tax policy that appears to worsen over time, putting the sales tax on an unsustainable path. No remedial action is easy, but repairing the tax is surely simpler than starting over, and states need the revenue because the sales tax provides an important foundation for their tax systems. The solution is straightforward: Tax all household consumption expenditures and exempt all business purchases. States can begin by adding more household consumption services to the tax base and by restraining their inclination to offer exemptions that seem to be good ideas at the time.”

John L. Mikesell, PhD, “Reversing 85 Years of Bad Tax Policy”, *Tax Notes*, February 1, 2019

OTHER VOICES...

"There are several problems with the [sales] tax. First, the overall sales tax base is declining. There is a long-term shift in the economy to services rather than goods. The current tax base does not capture many of these services. Also, there are numerous sales tax exemptions that cause Utah businesses to shoulder widely differing tax burdens."

Governor Olene S. Walker's Recommendations on a Tax Structure for Utah's Future,
2004, p.iii

ONE LAST DATAPOINT:

YEAR-END SURPLUSES/(DEFICITS) BY TAX FUND (DOLLARS IN THOUSANDS)

Fiscal Year	General Fund (Sale Tax)	Education Fund (Income Tax)	Total
2012	11,342	35,043	46,385
2013	(350)	122,400	122,050
2014	7,224	105,543	112,767
2015	(15,675)	59,505	43,830
2016*	7,196	(2,186)	5,010
2017	9,585	17,608	27,193
2018	7,966	149,882	157,848
2019 Preliminary	(43,000)	140,000	97,000

*Both GF and EF would have been in deficit at the end of FY 2016 (GF -\$13 m; EF -\$2 m) except for a software change at the Utah Tax Commission that began mid-year allocating more insurance premium taxes to the General Fund and less to firefighters' retirement and training.



UTAH STATE

LEGISLATURE